# EXHIBIT F

**HERB GREENBERG**

# How E-Trade mortgages its past, future

## Commentary: CEO downplays impact from mortgage holdings

*By Herb Greenberg, MarketWatch*
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**SAN DIEGO (MarketWatch) -- With the mortgage market going through an upheaval, you would think Mitch Caplan would be ducking for cover.**

As the mortgage mess continues to evolve, the company he runs, E-Trade Financial Corp. (ETFC) , is clearly in the thick of it, so much so that after reviewing its financial statements, you might think it was a mortgage REIT disguised as an online broker.

It isn't, of course, but the reinvigoration of E-Trade's stock in 2003, then again in 2005, would appear to coincide with an increase in purchasing mortgages, home-equity loans and other mortgage-related assets. While E-Trade is hardly the only financial-services firm or broker to have mortgage exposure, it appears to be much greater at E-Trade than the likes of Charles Schwab Co. Inc. (SCHW)

Income from interest earned on those assets, the company warns in the risk-factor section of its Securities and Exchange Commission filings, "has become an increasingly important source of our revenue." So important that in 2005 interest income shot ahead of brokerage fees as the top sales generator, steadily edging higher through the second quarter, when it accounted for 58% of revenue, up from 44% in all of 2004.

Most of that is tied to consumer loans, the majority of which are first and second mortgages purchased from others, such as National City Corp. (NCC) and the mortgage arm of J.P. Morgan Chase Co. (JPM) , as well as those generated by E-Trade itself. The company also holds a large portfolio of mortgage-backed securities.

Citing the large mortgage portfolio, analyst Prashant Bhatia of Citigroup, who rates E-Trade a "hold," told his clients in a report that the company "has much higher interest-rate risk relative to its peers."

Sean Egan, managing director of Egan-Jones Ratings Co., an independent credit-ratings organization, takes it a step further: "E-Trade is a broker, not an asset holder and therefore the rapid buildup is a concern. The company has moved out of its core expertise and is taking on some risky assets in the process."

Just how risky? Bhatia and Egan have voiced concern that E-Trade isn't well enough reserved to cover mortgage losses. "With problems in the mortgage market," Egan says, "future mortgage-related earnings are likely to fall." For example, E-Trade's allowance for loan losses fell to 45% of loans that are likely to go bad from 91% in the first six months of this year. Bad loans during the period, meanwhile, rose by 13%. Along those lines, a new risk factor in the company's 10-Q filed Thursday warns that since "a substantial portion of our asset portfolio" is composed of mortgages, "instability in the consumer credit markets and credit trends" may force an increase in the provision for loan losses, which would take a bite out of future results.

Which gets us back to Caplan, who appeared to be taking all of this in stride when I caught up to him Friday. "We are absolutely, positively not immune to what is happening in the macro market," he says. But he disagrees that E-Trade has been using mortgages like steroids to juice his company's performance. "Here's where you're not connecting the dots," he says. He then went through a history of the company and explained that in 2003 E-Trade shifted away from commissions as the biggest source of revenue because they didn't appear to be "a long-term sustainable franchise."

The company went after more affluent customers, using "the massive growth in cash" from them to increase its real-estate portfolio. Sounded good at the time, and Caplan believes it sounds just as good today. The difference between his company and many other mortgage investors, he says, was that E-Trade stuck with higher-quality "generic" first mortgages, accepting smaller returns in exchange.

"Do I worry more about home-equity loans," which are almost the same size as E-Trade's first-mortgage portfolio? "Of course I do," he says. But he stresses that the midpoint for earnings estimates for the year haven't changed, a sign of his confidence that E-Trade won't get blindsided by the mortgage mess.

Still, going forward, even Caplan acknowledges that mortgages aren't likely to be the investment they used to be. Not to worry. He says he could use the cash to pay down wholesale borrowings or even buy back shares. Sounds good on paper, but as investors have learned lately, when it comes to anything related to mortgages, it's what happens in practice that counts.

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does not own stocks (except for shares of his employer), and he does not sell individual stocks short or invest in hedge funds.





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